OLYMPIC COLLEGE

Financial Report

2015-2016

Olympic College
2016 Financial Report

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Trustees and Administrative Officers

EXECUTIVE OFFICERS
Dr. David Mitchell, President
Dr. Kay Ash, Vice President for Administrative Services
Dr. Damon Bell, Vice President for Student Services and Achievement
Dr. Mary Garguile, Vice President for Instruction
Cheryl Nuñez, Vice President for Equity and Inclusion

ACADEMIC DEANS
Mark Harrison, Dean, Math, Engineering, Science and Health Occupations
Rebecca Seaman, Dean, Social Sciences and Humanities
Norma Whitacre, Dean, Business and Technology

Trustees and Officer list effective as of December 1, 2016

Independent Auditor's Report on Financial Statements

Management's Discussion and Analysis

Olympic College

The following discussion and analysis provides an overview of the financial position and activities of Olympic College (the College) for the fiscal year ended June 30, 2016 (FY 2016). This overview provides readers with an objective and easily readable analysis of the College's financial performance for the year, based on currently known facts and conditions. This discussion has been prepared by management and should be read in conjunction with the College's financial statements and accompanying Note disclosures.

Reporting Entity

Olympic College is one of thirty public community and technical college districts in the state of Washington, providing comprehensive, open-door academic programs, workforce education, basic skills and community service educational programs to approximately 12,000 students. The College confers bachelor's degrees, associates degrees, certificates and high school diplomas. The College was established in 1946 and its primary purpose is to enrich our diverse communities through quality education and support so students achieve their educational goals.

The College's main campus is located in Bremerton, Washington, a community of about 38,500. The College also has satellite campuses in Poulsbo and Shelton, Washington. The College is governed by a five-member Board of Trustees appointed by the governor of the state with the consent of the state Senate. By statute, the Board of Trustees has full control of the College, except as otherwise provided by law.

Using the Financial Statements

The financial statements presented in this report encompass the College and its discretely presented component units, *the Olympic College Foundation and the Bremer Trust.* The College's financial statements include the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. The Statement of Net Position provides information about the College as of June 30, 2016. The Statement of Revenue, Expenses and Changes in Net Position and the Statement of Cash flows provide information about operations and activities over the entire fiscal year. Together, these statements, along with the accompanying Notes, provide a comprehensive way to assess the college's financial health.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net position are reported under the accrual basis of accounting where all of the current year's revenues and expenses are taken into account regardless of when cash is received or payments are made. Full accrual statements are intended to provide a view of the College's financial position similar to that presented by most private-sector companies. These financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The full scope of the College's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

Statement of Net Position

The Statement of Net Position provides information about the College's financial position, and presents the College's assets, liabilities, and net assets at year-end and includes all assets and liabilities of the College. A condensed comparison of the Statement of Net Position is as follows:

Table One

Condensed Statement of Net Position As of June 30th	**FY 2016**	**FY 2015**
Assets		
Current Assets	$ 34,625,729	$ 32,661,198
Capital Assets, net	$ 110,005,106	$ 100,881,384
Total Assets	$ 144,630,835	$ 133,542,582
Deferred Outflows (related to pension)	$ 1,214,916	$ 747,087
Liabilities		
Current Liabilities	$ 8,161,691	$ 7,170,709
Other Liabilities, non-current	$ 1,798,075	$ 1,967,301
Pension Liability	$ 6,396,304	$ 5,101,432
Total Liabilities	$ 16,356,070	$ 14,239,442
Deferred Inflows (related to pension)	$ 953,850	$ 2,133,372
Net Position, as restated	$ 128,535,831	$ 117,916,855

Current assets consist primarily of cash investments, various accounts receivables and inventories. The modest increase of current assets in FY 2016 can be attributable to increases in Running Start enrollment, receivables and a small increase in Bookstore resale inventory.

Net capital assets increased by $9,123,722 from FY 2015 to FY 2016. After taking into consideration the current depreciation expense of $3,506,555 combined with the disposal of certain assets, the increase is the result of the College Instruction Center (CIC) building, as a work in progress.

Deferred outflows of resources totaling $1,214,916 are related to the net pension liability that was recorded on the College's financials this year.

Current liabilities include amounts payable to suppliers for goods and services, accrued payroll and related liabilities, the current portion of Certificate of Participation (COP) debt for a 2010 energy efficiency project, deposits held for others and unearned revenue. Current liabilities can fluctuate from year to year depending on the timeliness of vendor invoices and resulting vendor payments, especially in the area of capital assets and improvements.

Non-current liabilities primarily consist of the value of vacation and sick leave earned but not yet used by employees, pension liability and the long-term portion of Certificates of Participation (COP) debt.

The College's non-current liabilities increased due to the implementation of GASB Statement No. 68, reflecting the College's proportionate share of the net pension liability.

Deferred inflows of resources related to the College's net pension liability totaled $953,850. Deferred inflows of resources include the calculated difference between actual and projected investment earnings on the state's pension plans.

Net position represents the value of the College's assets and deferred outflows after liabilities and deferred inflows are deducted. The College is required by accounting standards to report its net position in four categories:

Net Investment in Capital Assets **–** The College's total investment in property, plant, equipment, and infrastructure net of accumulated depreciation and outstanding debt obligations related to those capital assets. Changes in these balances are discussed above.

Restricted:

Nonexpendable **–** consists of funds in which a donor or external party has imposed the restriction that the corpus or principal is not available for expenditures but for investment purposes only.

Expendable **–** resources the College is legally or contractually obligated to spend in accordance with restrictions placed by donor and/or external parties who have placed time or purpose restrictions on the use of the asset.

Unrestricted **–** Includes all other assets not subject to externally imposed restrictions, but which may be designated or obligated for specific purposes by the Board of Trustees or management.

Table Two

Net Position As of June 30th	**FY 2016**	**FY 2015**
Net investment in capital assets	$ 109,433,276	$ 100,176,563
Restricted		
Expendable (3.5% Instit Loan Fund)	$ 234,303	$ 405,312
Nonexpendable (Endowments)	$ 400,000	$ 845,303
Unrestricted	$ 18,468,252	$ 16,489,677
Cumulative effect of change in accounting principle	$0	$0
Total Net Position	**$128,535,831**	**$117,916,855**

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position accounts for the College's changes in total net position during FY 2016. The objective of the statement is to present the revenues received, both operating and non-operating, and the expenses paid by the College, along with any other revenue, expenses, gains and losses of the College.

Generally, operating revenues are earned by the College in exchange for providing goods and services. Tuition, grants and contracts are included in this category. In contrast, non-operating revenues include monies the college receives from another government without directly giving equal value to that government in return. Accounting standards require that the College categorize state operating appropriations and Pell Grants as non-operating revenues.

Operating expenses are expenses incurred in the normal operation of the College, including depreciation on property and equipment assets. When operating revenues, excluding state appropriations and Pell Grants, are measured against operating expenses, the College shows an operating loss. The operating loss is reflective of the external funding necessary to keep tuition lower than the cost of the services provided.

A condensed comparison of the College's revenues, expense and changes in net position for the years ended June 30, 2016 and 2015 is presented below.

Table Three

As of June 30th	FY 2016	FY 2015
Operating Revenues	$ 42,472,688	$ 37,969,712
Operating Expenses	69,907,108	67,636,750
Net Operating Loss	**(27,434,420)**	**(29,667,038)**
Non-Operating Revenues and Expenses	27,539,757	26,588,024
Loss Before Other Revenues/Expenses	**105,337**	**(3,079,014)**
Capital Appropriations and Contributions	10,492,639	3,456,977
Noncash capital contribution, Equipment	21,000	9,354
Increase in Net Position	**10,618,976**	**387,317**
Net Position, Beginning of the Year	**117,916,855**	**120,422,968**
Cummulative effect of change in accounting principle	**0**	**(6,640,648)**
Prior period adjustment	**0**	**3,747,218**
Net Position, End of the Year	**$ 128,535,831**	**$ 117,916,855**

<u>Revenues</u>

Continuing a trend that began midway through fiscal year 2009, the College's state operating appropriations decreased again in FY 2013. The state of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates monies to each college. System-level appropriations hit their height in FY 2009 and as of FY 2013 have been reduced by almost 24%. In FY14, the Legislature reinstated a fraction of the previous cuts.

Over this same period, the Legislature and SBCTC instituted increases in tuition rates to partially offset the reduction in state appropriations. Since enrollments decreased slightly in FY 2016, the College's increase in tuition and fee revenue is primarily attributable *to the increased tuition rates (along with changes in mix such as more part-time students or fewer ABE enrollments, or increases in self-support enrollments or programs, new baccalaureate self-support programs?).*

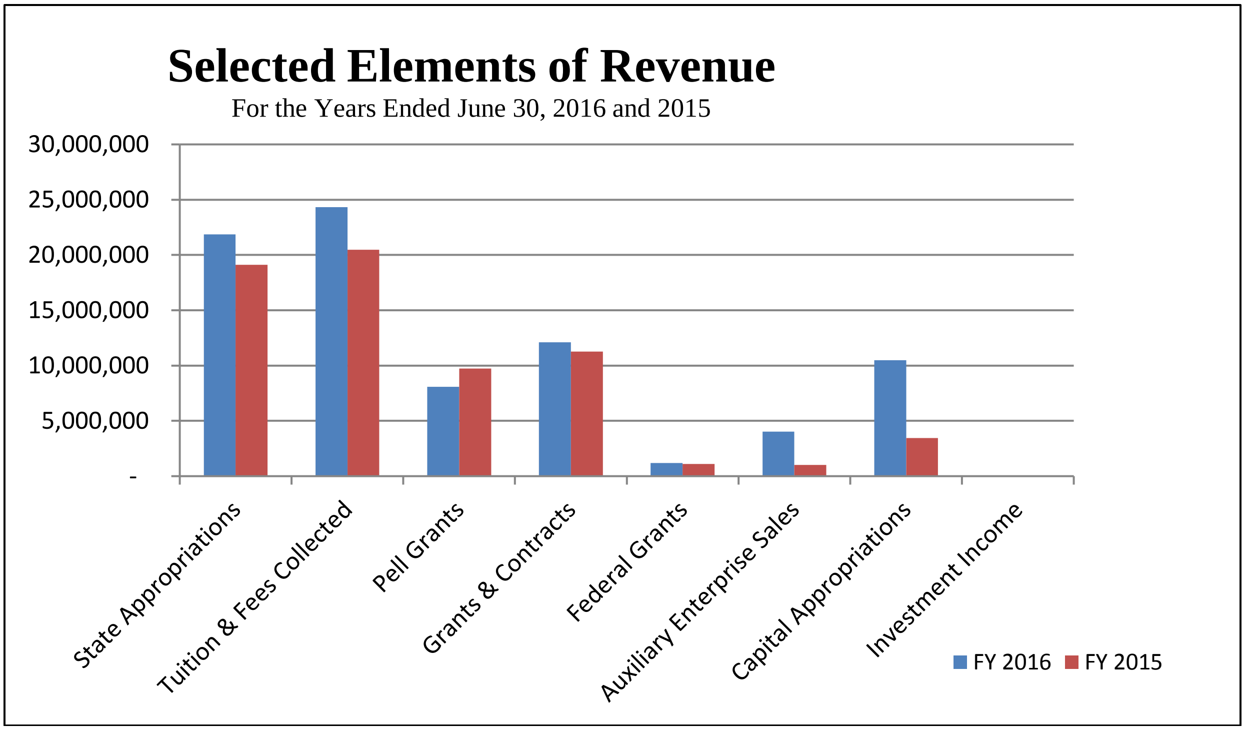
In FY 2016, the Legislature enacted the Affordable Education Act, which reduced tuition by 5% at the College. This reduced the amount of tuition revenue collected by the College. The Legislature did however backfill a portion of this loss as seen in the graph below.

Pell grant revenues generally follow enrollment trends. As the College's enrollment softened during FY 2016, so did the College's Pell Grant revenue. For FY2016, the College attempted to keep hold other fees as stable as possible, resulting in only small changes in these revenues. In addition, the College serves some students and offers some programs on a fee-only basis, as allowed by law.

In FY 2016, grant and contract revenues increased by $831,808 when compared with FY 2015. The College continued to serve students under the terms of contracted programs. The College contracts with local high schools to enroll Running Start students who earn both high school and college credit for these courses. The College also serves contracted international students who are not supported by state dollars.

The College receives capital spending authority on a biennial basis and may carry unexpended amounts forward into one or two future biennia, depending on the original purpose of the funding. In accordance with accounting standards, the amount shown as capital appropriation revenue on the financial statement is the amount expended in the current year. Expenditures from capital project funds that do not meet accounting standards for capitalization are reported as operating expenses. Those expenditures that meet the capitalization standard are not shown as expense in the current period and are instead recognized as depreciation expense over the expected useful lifetime of the asset.

The charts below show the revenue categories for FY16 and FY15 for comparison.
Chart One



Expenses
Faced with budget cuts over the past seven years, the College has continuously sought opportunities to identify savings and efficiencies. Over time, the College decreased spending and services and was subject to various state spending freezes and employee salary reductions.

More recently, in FY 2016, salary and benefit costs increased as a result of *adding positions, negotiated increases for classified staff, having to compete in the job market in order to replace retiring exempt employees and/or faculty, new grant- or contract –funded positions, any impact on IT positions in preparation for ctcLink?* .

Utility costs have decreased *in FY 2016 as a result of targeted efforts to reduce use, in spite of rate increases from utility providers.* Supplies and materials have increased as a result of… Purchased services are significantly lower *higher* in FY 2016, primarily as a result of a reduced spending related to capital projects. Certain capital project costs do not meet accounting criteria for capitalization as part of the cost of the building and are instead recognized as supplies and materials or purchased services costs. These fluctuations are to be expected. Depreciation expense is also primarily driven by capital activity, with the annual depreciation expense showing a significant increase in any year when a new building is placed in service. *Discuss any other major differences between FY15 & FY16*

Comparison of Selected Operating Expenses by Function
The charts below show the percentage for selected functional area of operating expenses for FY 2016 and FY 2015.

Chart Two

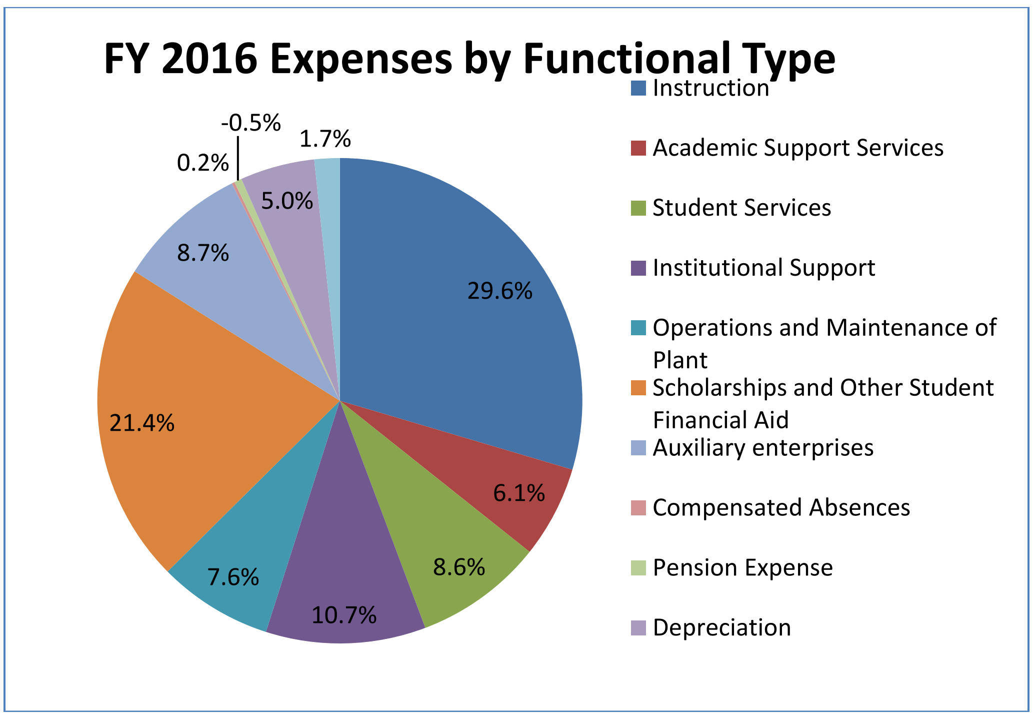
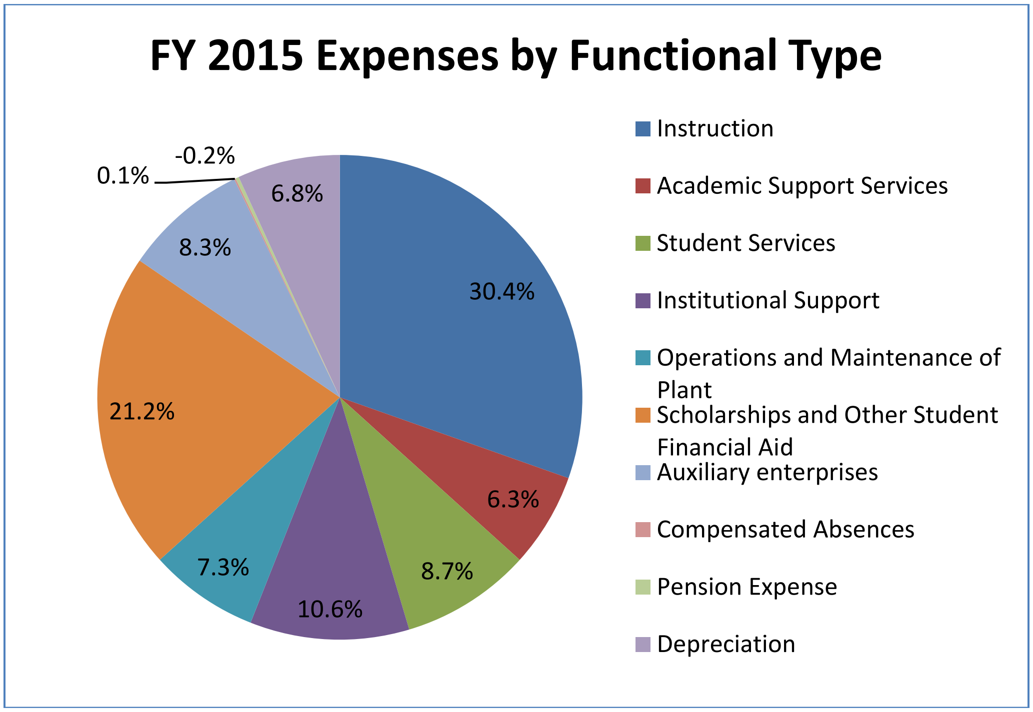


Chart Three



Capital Assets and Long-Term Debt Activities
The community and technical college system submits a single prioritized request to the Office of Financial Management and the Legislature for appropriated capital funds, which includes major projects, minor projects, repairs, emergency funds, alternative financing and major leases. The primary funding source for college capital projects is state general obligation bonds. In recent years, declining state revenues significantly reduced the state's debt capacity and are expected to continue to impact the number of new projects that can be financed. In addition, the College has one of four community college projects that were funded through a Certificate of Participation (COP) against which system–wide building fee monies were pledged.

At June 30, 2016, the College had $110,005,106 in capital assets, net of accumulated depreciation. This represents an increase of $9,123,722 from last year, as shown in the table below.

Table Four

Asset Type	June 30, 2016	June 30, 2015	Change
Land	$ 11,608,460	$ 11,608,460	$ -
Construction in Progress	$ 12,011,901	$ 4,519,461	$ 7,492,440
Buildings, net	$ 76,118,378	$ 78,552,178	$ (2,433,800)
Other Improvements and Infrastructure, net	$ 8,479,511	$ 4,179,250	$ 4,300,261
Equipment, net	$ 1,855,108	$ 1,762,356	$ 92,752
Library Resources, net	$ (68,252)	$ 259,678	$ (327,930)
Total Capital Assets, Net	**$110,005,106**	**$100,881,384**	**$9,123,722**

The increase in net capital assets can be attributed to the construction of the College Instruction Center (CIC) Building which will be completed in 2017. Additional information on capital assets can be found in Note 5 of the Notes to the Financial Statements.

At June 30, 2016, the College had $571,830 in outstanding debt. The College entered into a Certificate of Participation (COP) in 2010 for energy enhancements.

Table Five

	June 30, 2016	June 30, 2015
Certificates of Participation	$ 571,830	$ 704,822
Capital Leases	$ -	$ -
Total	**$ 571,830**	**$ 704,822**

Additional information of notes payable, long term debt and debt service schedules can be found in Notes 12 and 14 of the Notes to the Financial Statements.

Economic Factors That May Affect the Future

Following a trend that began in FY 2009, the College's state operating appropriations continued to decrease through FY 2013. Beginning FY 2016, the Legislature enacted the Affordable Education Act, which reduced tuition by 5% at the College. This will further reduce the amount of tuition collected by the College. The Legislature did however backfill this loss. In FY 2017, the State Board for Community and Technical College's has elected to move to a new allocation model, changing how the state allocated funds are distributed to each college. The new model is based on performance in several key indicators, from general enrollments to enrollments in high cost programs, as well as student completion and achievement points. The model is based on a three-year rolling average of enrollments and completions, comparative to other institutions in the state. *Due to decrease in enrollment, it is estimated that the College will likely see an decrease in state operating appropriations in future year*.

It's unclear how much opportunity there may be for additional investments in community and technical colleges in the next few years, as state budget writers continue to grapple with court-mandated basic education obligations such as the McCleary Act.

College Statement of Net Position

College Statement of Revenues, Expenditures and Changes in Net Position

College Statement of Cash Flows

Foundation Statement of Financial Position

Foundation Statement of Activities and Changes in Net Position

Bremer Trust Statement of Financial Position

JOHN BREMER EDWARD BREMER CONSOLIDATED TRUST
STATEMENTS OF FINANCIAL POSITION
December 31, 2015
With Comparative Totals as of December 31, 2014

ASSETS

	2015	2014
CURRENT ASSETS		
Cash and cash equivalents	$ 262,055	$ 472,763
Investments	18,738,094	20,054,306
Rent receivable	174,004	20,678
Deferred rent receivable	7,500	5,190
Federal income tax receivable	1,959	1,959
Prepaid expenses	59,163	38,058
Total current assets	19,242,775	20,592,954
PROPERTY AND EQUIPMENT		
Land	1,728,914	1,728,914
Buildings, fixtures and equipment	11,924,025	11,306,137
Construction in progress	14,824	14,824
	13,667,763	13,049,875
Less accumulated depreciation	(6,558,263)	(6,324,935)
Total property and equipment, net	7,109,500	6,724,940
Total assets	$ 26,352,275	$ 27,317,894

LIABILITIES AND NET ASSETS

	2015	2014
CURRENT LIABILITIES		
Accounts payable	$ 41,610	$ 38,205
Property tax payable	136,758	139,017
Refundable security deposits	8,114	13,517
Contributions payable to Olympic College	77,002	-
Demand note facility	1,212,732	2,256,235
Total current liabilities	1,476,216	2,446,974
LONG-TERM DEBT - DEMAND NOTE FACILITY	787,540	-
NET ASSETS		
Net assets, temporarily restricted	24,088,519	24,870,920
Total liabilities and net assets	$ 26,352,275	$ 27,317,894

Bremer Trust Statement of Activities and Changes in Net Position

JOHN BREMER EDWARD BREMER CONSOLIDATED TRUST
STATEMENTS OF ACTIVITIES
For the Year Ended December 31, 2015
With Comparative Totals for the Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Total 2015	Total 2014
REVENUES				
Rental	$ -	$ 716,401	$ 716,401	$ 608,931
Interest	-	44,479	44,479	45,896
Dividends	-	481,397	481,397	518,929
Miscellaneous income	-	3,739	3,739	5,049
Net realized gain on investments	-	686,009	686,009	1,035,818
Net unrealized loss on investments	-	(1,547,161)	(1,547,161)	(722,905)
Net gain on sale of property		-	-	180,164.00
Assets released from restrictions	1,167,265	(1,167,265)	-	-
Total revenues	1,167,265	(782,401)	384,864	1,671,882
EXPENSES				
General and administrative	1,088,513	-	1,088,513	1,038,308
Distributions to Olympic College	78,752	-	78,752	151,950
Total expenses	1,167,265	-	1,167,265	1,190,258
CHANGE IN NET ASSETS	-	(782,401)	(782,401)	481,624
NET ASSETS				
Beginning of year	-	24,870,920	24,870,920	24,389,296
End of year	$ -	$ 24,088,519	$ 24,088,519	$ 24,870,920

Bremer Trust Statement of Cash Flows

JOHN BREMER EDWARD BREMER CONSOLIDATED TRUST
STATEMENTS OF CASH FLOWS
For the Year Ended December 31, 2015
With Comparative Totals for the Year Ended December 31, 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	$ (782,401)	$ 481,624
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	233,328	184,871
Realized gain on investments	(686,009)	(1,035,818)
Unrealized (gain) loss on investments	1,547,161	722,905
Gain on sale of property	-	(180,164)
Decrease (increase) in:		
Rent receivable	(153,326)	31,605
Deferred rent receivable	(2,310)	13,635
Prepaid expenses	(21,105)	10,051
Increase (decrease) in:		
Accounts payable	3,405	(4,791)
Property taxes payable	(2,259)	(24,440)
Refundable security deposits	(5,403)	(3,638)
Contributions payable to Olympic College	77,002	-
Net cash provided by operating activities	208,083	195,840
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(6,845,285)	(7,581,080)
Proceeds from sale of investments	7,300,345	7,406,486
Proceeds from sale of property and note payments	-	245,498
Purchases of property and equipment	(617,888)	(738,733)
Net cash used by investing activities	(162,828)	(667,829)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on demand note facility	(812,766)	(18,316)
Proceeds from issuance of demand note facility	556,803	470,201
Net cash provided (used) by financing activities	(255,963)	451,885
Decrease in cash and cash equivalents	(210,708)	(20,104)
Cash & cash equivalents, beginning of year	472,763	492,867
Cash & cash equivalents, end of year	$ 262,055	$ 472,763

Notes to the Financial Statements

June 30, 2016
These notes form an integral part of the financial statements.

1. Summary of Significant Accounting Policies

Financial Reporting Entity
Olympic College (the College) is a comprehensive community college offering open-door academic programs, workforce education, basic skills, and community services. The College confers baccalaureate degrees, associates degrees, certificates and high school diplomas. It is governed by a five-member Board of Trustees appointed by the Governor and confirmed by the state Senate.

The College is an agency of the State of Washington. The financial activity of the college is included as part of the entire community and technical college system in the State's Comprehensive Annual Financial Report (CAFR).

The Olympic College Foundation (the Foundation) is a separate but affiliated non-profit entity, incorporated under Washington law in 1993 and recognized as a tax exempt 501(c)(3) charity. The Foundation's charitable purpose is to support student success and program excellence at Olympic College by promoting and receiving philanthropic gifts for the benefit of Olympic College, including student scholarships, program enhancements, professional development, equipment, capital projects, cultural events and activities that enrich the entire college community. Because the majority of the Foundation's income and resources are restricted by donors and may only be used for the benefit of the college or its students, the Foundation is considered a discrete component unit based on the criteria contained in Governmental Accounting Standards Board (GASB) Statement Nos. 61, 39 and 14. A discrete component unit is an entity which is legally separate from the College, but has the potential to provide significant financial benefits to the College or whose relationship with the College is such that excluding it would cause the College's financial statements to be misleading or incomplete.

The Foundation's financial statements are discretely presented in this report and have been prepared in accordance with accounting principles generally accepted in the United States of America. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2016, the Foundation distributed approximately $514,037 to the College for restricted and unrestricted purposes. A copy of the Foundation's complete financial statements may be obtained from the Director of the Foundation, Olympic College, 1600 Chester Avenue, Bremerton, WA 98337 or by calling (360) 475-7120.

The College is the beneficiary of the Bremer Trust. On January 1, 1987, the Estate of Ed Bremer and the John Bremer Residuary Trust formed Bremers Partnership by each contributing property. On January 1, 1988, the assets of the Estate were transferred into the Trust, the resulting reporting entity. The endowments of the Trust require that the trustee distribute to Olympic College, on an annual basis, a minimum of 50% of the change in net assets of the Trust, exclusive of capital gains or losses.

The Bremer Trust financial statements are discretely presented in this report. The Trust's statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Intra-entity transactions and balances between the College and the Bremer Trust are not eliminated for financial statement presentation. During the fiscal year ended, the Trust distributed $78,752 to the College. A copy of the Trust's complete financial statements may be obtained from Sarah Andresen, Hearthstone CPA Group, 400 Warren Avenue, Suite 430, Bremerton, WA 98337.

Basis of Presentation

The financial statements have been prepared in accordance with GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* as amended by GASB Statement No. 35, *Basic Financial Statements and Management Discussion and Analysis for Public Colleges and Universities.* For financial reporting purposes, the College is considered a special-purpose government engaged only in Business Type Activities (BTA). In accordance with BTA reporting, the College presents a Management's Discussion and Analysis; a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; a Statement of Cash Flows; and Notes to the Financial Statements. The format provides a comprehensive, entity-wide perspective of the college's assets, deferred inflows, liabilities, deferred outflows, net position, revenues, expenses, changes in net position and cash flows.

New Accounting Pronouncements

In February 2015, the GASB issued Statement No. 72, Fair Value Measurement and Application, which provides guidance for applying fair value to certain investments, and disclosures related to all fair value measurements. This Statement establishes a three-level hierarchy of inputs to valuation techniques used to measure fair value, and requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The College currently only invests in the Local Government Investment Pool (LGIP), and has no other investments. The LGIP is managed by the Office of the State Treasurer and prepares its own financial report that meets GASB standards. Disclose any other investments you may have and how you implemented the standard.

In June 2015, the GASB issued Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. This Statement is intended to improve financial reporting of governments whose employees are provided with pensions that are not within the scope of Statement No. 68, improve the usefulness of information associated with governments that hold assets accumulated for purposes of providing defined benefit pensions not within the scope of Statement No. 68, and to clarify the application of certain provisions of Statements No. 67 and 68. The College is currently working with SBCTC to determine the financial impact.

In June 2015, the GASB issued Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, which identifies the hierarchy of generally accepted accounting principles (GAAP). The Statement reduced the GAAP hierarchy to two categories of authoritative GAAP, and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The College adheres to this hierarchy of GAAP.

In March 2016, the GASB issued Statement No. 82, Pension Issues-an Amendment of GASB Statements No. 67, No. 68, and No.73. This Statement essentially addresses issues regarding the presentation of payroll-related measures in the required supplementary information. The College has reviewed this Statement in relation to the RSI presented with its financial statements.

Basis of Accounting

The financial statements of the College have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Non-exchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange includes state and federal appropriations, and certain grants and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

During the course of operations, numerous transactions occur between funds for goods provided and services rendered. For the financial statements, interfund receivables and payables have generally been eliminated. However, revenues and expenses from the College's auxiliary enterprises are treated as though the College were dealing with private vendors. For all other funds, transactions that are reimbursements of expenses are recorded as reductions of expense.

Cash, Cash Equivalents and Investments

Cash and cash equivalents include cash on hand, bank demand deposits, and deposits with the Washington State Local Government Investment Pool (LGIP). Cash in the investment portfolio is not included in cash and cash equivalents as it is held for investing purposes. Cash and cash equivalents that are held with the intent to fund College operations are classified as current assets along with operating funds invested in the LGIP. Endowment investments are classified as noncurrent assets. The College records all cash, cash equivalents, and investments at amortized cost, which approximates fair value OR at fair value.

The College combines unrestricted cash and cash equivalent funds from all departments into an internal investment pool, the income from which is allocated on a proportional basis each month.

Accounts Receivable
Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. This also includes amounts due from federal, state and local governments or private sources as allowed under the terms of grants and contracts. Where applicable, accounts receivable includes proceeds from Certificates of Participation that have not yet been received from the State Treasurer. Accounts receivable are shown net of estimated uncollectible amounts.

Inventories
Inventories, consisting primarily of merchandise for resale in the college bookstore and course-related supplies, are valued at cost using various methods.

Capital Assets
In accordance with state law, capital assets constructed with state funds are owned by the State of Washington. Property titles are shown accordingly. However, responsibility for managing the assets rests with the College. As a result, the assets are included in the financial statements because excluding them would be misleading to the reader.

Land, buildings and equipment are recorded at cost, or if acquired by gift, at fair market value at the date of the gift. As this is the first institution-level financial statement prepared by the college, GASB 34 guidance concerning preparing initial estimates for historical cost and accumulated depreciation related to infrastructure was followed. Capital additions, replacements and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs. Any interest costs incurred are capitalized during the period of construction. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, all land, intangible assets and software with a unit cost of $1,000,000 or more, buildings and improvements with a unit cost of $100,000 or more, library collections with a total cost of $5,000 or more and all other assets with a unit cost of $5,000 or more are capitalized. Depreciation is computed using the straight line method over the estimated useful lives of the assets as defined by the State of Washington’s Office of Financial Management (OFM). Useful lives are generally 3 to 7 years for equipment, 15 to 50 years for buildings and 20 to 50 years for infrastructure and land improvements.

In accordance with GASB Statement 42, the college reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At June 30, 2016, no assets had been written down.

Unearned Revenues
Unearned revenues occur when funds have been collected prior to the end of the fiscal year but related to the subsequent fiscal year. The College has recorded summer quarter tuition and fees, housing deposits and advanced grant proceeds as unearned revenues.

Tax Exemption
The College is a tax-exempt organization under the provisions of Section 115 (1) of the Internal Revenue Code and is exempt from federal income taxes on related income.

Net Pension Liability
For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State of Washington Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) and additions to/deductions from PERS's and TRS's fiduciary net position have been determined on the same basis as they are reported by PERS and TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows of Resources and Deferred Inflows of Resources
Deferred outflows of resources represent consumption of net position that is applicable to a future period. Deferred inflows of resources represent acquisition of net position that is applicable to a future period. Changes in net position liability not included in pension expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources.

Net Position
The College's net position is classified as follows.

- *Net Investment in Capital Assets*. This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.
- *Restricted for Nonexpendable*. This consists of endowment and similar type funds for which donors or other outside sources have stipulated as a condition of the gift instrument that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income which may either be expended or added to the principal.
- *Restricted for Expendable*. These include resources the College is legally or contractually obligated to spend in accordance with restrictions imposed by third parties.
- *Unrestricted*. These represent resources derived from student tuition and fees, and sales and services of educational departments and auxiliary enterprises.

Classification of Revenues
The College has classified its revenues as either operating or non-operating revenues according to the following criteria:

Operating Revenues. This includes activities that have the characteristics of exchange transactions such as (1) student tuition and fees, net of waivers and scholarship discounts and allowances, (2) sales and services of auxiliary enterprises and (3) most federal, state and local grants and contracts. These grants support the operational/educational activities of the college. Examples include a contract with the Office of the Superintendent of Public Instruction

(OSPI) to offer Running Start and the Adult Basic Education (ABE) grant that supports the primary educational mission of the college. The primary exception to this is the Pell Grant received from the federal government which is reported as non-operating grant revenue based on guidance from Office of Financial Management in collaboration with the State Auditor's Office.

Operating Expenses. Operating expenses include salaries, wages, fringe benefits, scholarships and fellowships, supplies and materials, depreciation, purchased services, and utilities.

Non-operating Revenues. This includes activities that have the characteristics of non-exchange transactions, such as gifts and contributions, state appropriations, investment income and Pell Grants received from the federal government. Pell grants are reported as non-operating revenue based on guidance from the Office of the Financial Management in collaboration with the State Auditor's Office.

Non-operating Expenses. Non-operating expenses include state remittance related to the building fee and the innovation fee, along with interest incurred on the Certificate of Participation Loans, and Capital Asset adjustments.

Scholarship Discounts and Allowances
Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or non-governmental programs are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance. Discounts and allowances for the year ending June 30, 2016 are $3,233,355.

State Appropriations
The state of Washington appropriates funds to the College on both an annual and biennial basis. These revenues are reported as non-operating revenues on the Statements of Revenues, Expenses, and Changes in Net Position, and recognized as such when the related expenses are incurred.

Building and Innovation Fee Remittance
Tuition collected includes amounts that have been remitted for the Building Fee and Innovation Fee to the Washington State Treasurer's office to be held and appropriated in future years. The Building Fee portion of tuition charged to students is an amount established by the Legislature and is subject to change annually. The fee, which is remitted on the 35th calendar day of each quarter, provides funding for capital construction and projects on a system wide basis using a competitive biennial allocation process. The Innovation Fee was established in order to fund the State Board of Community and Technical College's (SBCTC) Strategic Technology Plan. The use of the fund is to implement new ERP software across the entire system. On a monthly basis, the College's remits the Innovation Fee to the State Treasurer for allocation to SBCTC. Both the

Building Fee and Innovation Fee remittances are non-exchange transactions reported as an expense in the non-operating revenues and expenses section of the Statement of Revenues, Expenses and Changes in Net Position.

2. Cash and Investments

Cash and cash equivalents include bank demand deposits and change funds held at the College and unit shares in the Local Government Investment Pool (LGIP). The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17 CFR 270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both the market and credit risk. The LGIP is an unrated investment pool.

As of June 30, 2016, the carrying amount of the College's cash and equivalents was $24,572,944 as represented in the table below.

Table 1: Cash and Cash Equivalents	**June 30, 2016**
Change Funds	$11,000
Bank Demand and Time Deposits	$4,063,839
Local Government Investment Pool	$20,498,105
Total Cash and Cash Equivalents	**$24,572,944**

Custodial Credit Risks—Deposits

Custodial credit risk for bank demand deposits is the risk that in the event of a bank failure, the College's deposits may not be returned to it. All of the College's demand deposits are with US Bank. All cash and equivalents, except for change funds held by the College, are insured by the Federal Deposit Insurance Corporation (FDIC) or by collateral held by the Washington Public Deposit Protection Commission (PDPC).

Interest Rate Risk—Investments

The College manages its exposure to fair value losses and interest rate changes by limiting the duration of investments to mature at various points in the year. No investment exceeds 12 months.

Concentration of Credit Risk—Investments

State law limits College operating investments to the highest quality sectors of the domestic fixed income market and specifically excludes corporate stocks, corporate and foreign bonds, futures contracts, commodities, real estate, limited partnerships and negotiable certificates of deposit. The College does not have any concentration of investment credit risk.

Custodial Credit Risk—Investments

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the College will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. All cash and equivalents, except for change funds held by the College are insured by the Federal Deposit Insurance Corporation (FDIC) or by collateral held by the Washington Public Deposit Protection Commission (PDPC).

Investment Expenses
Under implementation of GASB 35, investment income for the College is shown net of investment expenses. The investment expenses incurred for the fiscal year ended June 30, 2016 were $1,869.

3. Accounts Receivable
Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from federal, state and local governments or private sources in connection with reimbursements of allowable expenditures made according to sponsored agreements. At June 30, 2016, accounts receivable are as follows.

Table 2: Accounts Receivable		**Amount**
Student Tuition and Fees	$	3,286,307
Due from the Federal Government	$	407,411
Due from Other State Agencies	$	4,947,659
Auxiliary Enterprises	$	83,710
Due from Local Governments	$	1,080,768
Subtotal	$	9,805,854
Less Allowance for Uncollectible Accounts	$	(526,692)
Accounts Receivable, net	**$**	**9,279,162**

4. Inventories
Inventories, stated at cost using FIFO, consisted of the following as of June 30, 2016.

Table 3: Inventories		**Amount**
Consumable Inventories	$	-
Merchandise Inventories	$	770,706
Work in Progress Inventories	$	-
Raw Materials Inventories	$	-
Inventories	**$**	**770,706**

5. Capital Assets
A summary of the changes in capital assets for the year ended June 30, 2016 is presented as follows. The current year depreciation expense was $3,506,555.

Table 4: Capital Assets	Beginning Balance	Additions/ Transfers	Disposals	Ending Balance
Nondepreciable capital assets				
Land	$ 11,608,460	$ -	$ -	$ 11,608,460
Construction in progress	$ 4,519,461	$ 7,492,440	$ -	$ 12,011,901
Total nondepreciable capital assets	$ 16,127,921	$ 7,492,440	$ -	$ 23,620,361
Depreciable capital assets				
Buildings	$ 105,763,617	$ 26,848	$ -	$ 105,790,465
Other improvements and infrastructure	$ 9,659,077	$ 4,611,748	$ -	$ 14,270,825
Equipment	$ 6,534,622	$ 759,863	$ -	$ 7,294,485
Library resources	$ 4,739,155	$ 81,432	$ (211,443)	$ 4,609,144
Subtotal depreciable capital assets	$ 126,696,471	$ 5,479,891	$ (211,443)	$ 131,964,919
Less accumulated depreciation				
Buildings	$ 27,211,439	$ 2,460,649	$ -	$ 29,672,088
Other improvements and infrastructure	$ 5,479,827	$ 311,486	$ -	$ 5,791,313
Equipment	$ 4,772,266	$ 667,111	$ -	$ 5,439,377
Library resources	$ 4,479,476	$ 238,336	$ (40,416)	$ 4,677,396
Total accumulated depreciation	$ 41,943,008	$ 3,677,582	$ -	$ 45,580,174
Total depreciable capital assets	$ 84,753,463	$ 1,802,309	$ (211,443)	$ 86,384,745
Capital assets, net of accumulated depreciation	**$ 100,881,384**	**$ 9,294,749**	**$ (211,443)**	**$ 110,005,106**

6. Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of equity that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The category of deferred outflow of resources reported in Statement of Net Position relates to pensions.

Deferred outflows on pensions are recorded when actual earnings on pension plan investments exceed projected earnings and are amortized to pension expense using a systematic and rational method over a closed five-year period. Deferred outflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the state's proportionate share of net pension liability. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan. State contributions to pension plans made subsequent to the measurement date are also deferred and reduce net pension liability in the subsequent year.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of equity that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources reported by the College relate to pensions.

Deferred inflows on pensions are recorded when projected earnings on pension plan investments exceed actual earnings and are amortized to pension expense using a systematic and rational method over a closed five-year period. Deferred inflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the state's proportionate share of net pension liability. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan.

7. Accounts Payable and Accrued Liabilities
At June 30, 2016, accrued liabilities are the following.

Table 5: Accounts Payable and Accrued Liabilities	Amount
Amounts Owed to Employees	$ 1,293,244
Accounts Payable	$ 1,671,163
Amounts Held for Others and Retainage	$ 2,797,496
Total	**$ 5,761,903**

8. Unearned Revenue
Unearned revenue is comprised of receipts which have not yet met revenue recognition criteria, as follows:

Table 6: Unearned Revenue	Amount
Summer Quarter Tuition & Fees	$ 2,223,523
Housing and Other Deposits	$ -
Total Unearned Revenue	**$ 2,223,523**

9. Risk Management
The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. The college finances these costs by assessing all funds a monthly payroll expense for unemployment compensation for all employees. Payments made for claims from July 1, 2015 through June 30, 2016, were $48,146. Cash reserves for unemployment compensation for all employees at June 30, 2016, were $219,145.

The College purchases commercial property insurance through the master property program administered by the Department of Enterprise Services for buildings that were acquired with COP proceeds. The policy has a deductible of $250,000 per occurrence and the policy limit is $100,000,000 per occurrence. The college has had no claims in excess of the coverage amount within the past three years. The College assumes its potential property losses for most other buildings and contents.

The College participates in a State of Washington risk management self-insurance program, which covers its exposure to tort, general damage and vehicle claims. Premiums paid to the State are based on actuarially determined projections and include allowances for payments of both outstanding and current liabilities. Coverage is provided up to $10,000,000 for each claim with no deductible. The college has had no claims in excess of the coverage amount within the past three years.

10. Compensated Absences

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Employees who retire get 25% of the value of their accumulated sick leave credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes. The amounts of unpaid vacation and compensatory time accumulated by College employees are accrued when incurred. The sick leave liability is recorded as an actuarial estimate of one-fourth the total balance on the payroll records. The accrued vacation leave totaled $1,000,015 and accrued sick leave totaled $363,093 at June 30, 2016.

Accrued annual and sick leave are categorized as non-current liabilities. Compensatory time is categorized as a current liability since it must be used before other leave. The compensatory time leave totaled $4,842 at June 30, 2016.

11. Leases Payable

The College finances some capital asset purchases through the Washington State Treasurer's leasing program. The college also financed energy improvements through the program. These are classified as capital leases. The College also has leases for office equipment with various vendors. These leases are classified as operating leases. As of June 30, 2016, the minimum lease payments under capital leases and operating leases consist of the following.

Table 7: Leases Payable	
Fiscal year	**Operating Leases**
2017	118,718
2018	118,718
2019	118,718
2020	118,718
2021	
2022-26	
Total minimum lease payments	474,872

12. Notes Payable

In June, 2010, the College obtained financing in order to implement energy enhancements on all three campuses through a certificate of participation (COP), issued by the Washington Office of

State Treasurer (OST) in the amount of $1,316,981. The financing term is 10 years and the interest rate is 2.89%.

The College's debt service requirements for this note agreement for the next five years are reflected under Annual Debt Service Requirements.

13. Annual Debt Service Requirements

Future debt service requirements at June 30, 2016 are as follows.

Table 8: Annual Debt Service Requirements			
	Certificates of Participation		
Fiscal year	**Principal**	**Interest**	**Total**
2017	136,863	15,549	$ 152,412
2018	140,848	11,564	$ 152,412
2019	144,950	7,462	$ 152,412
2020	149,170	3,242	$ 152,412
2021			
2022-26			
2027-2031			
2032-2036			
2037-2041			
2042-2046			
Total	**571,831**	**37,817**	**609,648**

14. Schedule of Long Term Debt

The College has long-term debt in the following categories: certificate of participation, compensated absences and net pension liability. As of June 30, 2016, the long-term debt consisted of the following:

Table 9: Schedule of Long-Term Debt					
	Balance outstanding 6/30/15	**Additions**	**Reductions**	**Balance outstanding 6/30/16**	**Current portion**
Certificates of Participation	$ 704,822	$ -	$ (132,991)	$ 571,830	$ 136,863
Compensated Absences	$ 1,278,508	$ 1,360,565	$ (1,090,024)	$ 1,549,048	$ -
Net pension liability	$ (6,640,649)	$ 652,555	$ -	$ (5,988,094)	
Total	$ (4,657,320)	$ 2,013,120	$ (1,223,015)	$ (3,867,215)	$ 136,863

15. Pension Liability

Pension liabilities reported as of June 30, 2016 consists of the following:

Pension Liability by Plan		
PERS 1	$	3,313,794
PERS 2/3		2,687,833
TRS 1		333,510
TRS 2/3		61,167
Total	**$**	**6,396,304**

16. Pension Plans

The College offers three contributory pension plans. The Washington State Public Employees Retirement System (PERS) and Teachers Retirement System (TRS) plans are cost sharing multiple employer defined benefit pension plans administered by the State of Washington Department of Retirement Services. The State Board Retirement Plan (SBRP) is a multiple employer defined contribution plan for faculty, exempt administrative and professional staff of the state's public community and technical colleges. The plan includes supplemental payment, when required. The plan is administered by the State Board for Community and Technical Colleges (SBCTC).

For FY2016, the payroll for the College's employees was $7,326,338 for PERS, $498,349 for TRS, and $16,786,492 for SBRP. Total covered payroll was $24,611,179.

Olympic College implemented Government Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions for the fiscal year 2015 financial reporting. The College's defined benefit pension plans were created by statutes rather than through trust documents. With the exception of the supplemental defined benefit component of the higher education retirement plan, they are administered in a way equivalent to pension trust arrangements as defined by the GASB.

In accordance with Statement No. 68, the College has elected to use the prior fiscal year end as the measurement date for reporting net pension liabilities to align with the State CAFR.

Basis of Accounting

Pension plans administered by the state are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, employee and employer contributions are recognized in the period in which employee services are performed; investment gains and losses are recognized as incurred; and benefits and refunds are recognized when due and payable in accordance with the terms of the applicable plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all plans and additions to/deductions from all plan fiduciary net position have been determined in all material respects on the same basis as they are reported by the plans.

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement No. 68 for Olympic College, for fiscal year 2016:

Table 10: Aggregate Pension Amounts-All Plans	
Pension Liabilities	(6,396,304)
Deferred outflows of resources (related to pension)	1,214,916
Deferred inflows of resources (related to pension)	(953,850)
Pension expense/expenditures	(352,479)

PERS and TRS

Plan Descriptions. PERS Plan 1 provides retirement and disability benefits and minimum benefit increases to eligible nonacademic plan members hired prior to October 1, 1977. PERS Plans 2 and 3 provide retirement and disability benefits and a cost-of-living adjustment to eligible nonacademic plan members hired on or after October 1, 1977. Retirement benefits are vested after five years of eligible service. PERS Plan 3 has a defined contribution component that members may elect to self-direct as established by the Employee Retirement Benefits Board. PERS 3 defined benefit plan benefits are vested after an employee completes five years of eligible service.

TRS Plan 3 provides retirement benefits to certain eligible faculty hired on or after October 1, 1977. The plan includes both a defined benefit portion and a defined contribution portion. The defined benefit portion is funded by employer contributions only. Benefits are vested after an employee completes five or ten years of eligible service, depending on the employee's age and service credit, and include an annual cost-of living adjustment. The defined contribution component is fully funded by employee contributions and investment performance.

The College also has 11 faculty members with pre-existing eligibility who continue to participate in TRS 1, TRS 2 and TRS 3.

The authority to establish and amend benefit provisions resides with the legislature. PERS and TRS issue publicly available financial reports that include financial statements and required supplementary information. The report may be obtained by writing to the Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380 or online at http://www.drs.wa.gov/administration.

Funding Policy. Each biennium, the state Pension Funding Council adopts PERS and TRS Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for PERS and TRS Plans 1 are established by statute. By statute, PERS 3 employees may select among six contribution rate options, ranging from 5 to 15 percent.

The required contribution rates expressed as a percentage of current year covered payroll are shown in the table below. The College and the employees made 100% of required contributions.

Contribution Rates and Required Contributions. The College's contribution rates and required contributions for the above retirement plans for the years ending June 30, 2016, 2015, and 2014 are as follows.

Table 11: Contribution Rates at June 30

	FY 2014		FY 2015		FY 2016	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6.00%	9.21%	6.00%	9.21%	6.00%	11.18%
Plan 2	4.92%	9.21%	4.92%	9.21%	6.12%	11.18%
Plan 3	5 - 15%	9.21%	5 - 15%	9.21%	5 - 15%	11.18%
TRS						
Plan 1	6.00%	10.39%	6.00%	10.39%	6.00%	13.13%
Plan 2	4.69%	10.39%	4.96%	10.39%	5.95%	13.13%
Plan 3	5-15%	10.39%	5-15%	10.39%	5-15%	13.13%

Table 12: Required Contributions

	FY2014		FY2015		FY2016	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	$ 17,473	$ 26,805	$ 15,423	$ 23,674	$ 15,423	$ 29,659
Plan 2	$ 242,153	$ 453,080	$ 251,245	$ 470,173	$ 251,245	$ 582,716
Plan 3	$ 108,335	$ 141,021	$ 112,589	$ 145,918	$ 112,589	$ 189,526
TRS						
Plan 1	$ 4,565	$ 7,587	$ 4,975	$ 8,615	$ 4,975	$ 10,790
Plan 2	$ 6,817	$ 14,013	$ 5,909	$ 12,378	$ 5,909	$ 19,738
Plan 3	$ 14,405	$ 18,234	$ 18,398	$ 23,765	$ 18,398	$ 33,148

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Investments

The Washington State Investment Board (WSIB) has been authorized by statute as having investment management responsibility for the pension funds. The WSIB manages retirement fund assets to maximize return at a prudent level of risk.

Retirement funds are invested in the Commingled Trust Fund (CTF). Established on July 1, 1992, the CTF is a diversified pool of investments that invests in fixed income, public equity, private equity, real estate, and tangible assets. Investment decisions are made within the framework of a Strategic Asset Allocation Policy and a series of written WSIB adopted investment policies for the various asset classes in which the WSIB invests.

For the year ended June 30, 2014, the annual money-weighted rate of return on the pension investments, net of pension plan expenses are as follows:

Pension Plan	Rate of Return
PERS Plan 1	4.45%
PERS Plan 2/3	4.63%
TRS Plan 1	4.41%
TRS Plan 2/3	4.65%

These money-weighted rates of return express investment performance, net of pension plan investment expense, and reflects both the size and timing of cash flows.

The PERS and TRS target asset allocation and long-term expected real rate of return as of June 30, 2014, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
Total	**100%**	

The inflation component used to create the above table is 2.20 percent and represents WSIB's most recent long-term estimate of broad economic inflation.

Pension Expense

Pension expense is included as part of "Employee Benefits" expense in the Statement of Revenues, Expenses and Changes in Net Position. The table below shows the components of each pension plans expense as it affected employee benefits:

	PERS 1	PERS 2/3	TRS 1	TRS 2/3	Total
Actuarially determined pension expense	$197,496	$318,521	$16,829	$17,377	$550,224
Amortization of change in proportionate liability	$0	$21,663	($6,864)	$0	$14,799
Total Pension Expense	**$197,496**	**$340,184**	**$9,965**	**$17,377**	**$565,022**

Changes in Proportionate Shares of Pension Liabilities

The changes to the College's proportionate share of pension liabilities from 2014 to 2015 for each retirement plan are listed below:

	2014	2015
PERS 1	0.064316%	0.063350%
PER 2/3	0.075259%	0.075225%
TRS 1	0.010725%	0.010527%
TRS 2/3	0.007399%	0.007249%

The College's proportion of the net pension liability was based on a projection of the College's long-term share of contributions to the pension plan to the projected contributions of all participating state agencies, actuarially determined.

Actuarial Assumptions
The total pension liability was determined by an actuarial valuation as of June 30, 2013, using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation 3.00%
- Salary Increases 3.75%
- Investment rate of return 7.50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

Discount Rate
The discount rate used to measure the total pension liability was 7.5 percent, the same as the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements.

Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates (including TRS Plan 2/3, whose rates include a component for the TRS Plan 1 liability).

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent on pension plan investments was applied to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate

The discount rate used to measure the total pension liability was 7.50 percent. To determine the discount rate an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.70 percent long-term discount rate to determine funding liabilities for calculating future contributions rate requirements. Consistent with the long-term expected rate of return, a 7.50 percent future investment rate of return on invested assets was assumed for the test.

Contributions from plan members and employers are assumed to continue to be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.50 percent on pension plan investments was applied to determine the total pension liability.

The following presents the net pension liability of the College calculated using the discount rate of 7.50 percent, as well as what the College's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate.

Pension Plan	**1% Decrease (6.50%)**	**Current Discount Rate (7.50%)**	**1% Increase (8.50%)**
PERS Plan 1	$4,034,553	$3,313,794	$2,694,008
PERS Plan 2/3	$7,859,361	$2,687,832	($1,271,813)
TRS Plan 1	$419,245	$333,510	$259,785
TRS Plan 2/3	$258,806	$61,167	($85,760)

Pension Expense and Deferred Outflows and Inflows of Resources Related to Pensions
The following represent the components of the College's deferred outflows and inflows of resources as reflected on the Statement of Net Position, for the year ended June 30, 2016:

	PERS 1		**PERS 2/3**	
	Deferred Outflows	**Deferred Inflows**	**Deferred Outflows**	**Deferred Inflows**
Difference between expected and actual experience	$0	$0	$285,717	$0
Difference between expected and actual earnings of pension plan investments	$0	$181,301	$0	$717,524
Changes of Assumptions	$0	$0	$4,331	$0
Changes in College's proportionate share of pension liabilities	$0	$0	$54,158	$1,094
Contributions to pension plans after measurement date	$376,756	$0	$420,913	$0

	$376,756	**$181,301**	**$765,119**	**$718,618**

	TRS 1		**TRS 2/3**	
	Deferred Outflows	**Deferred Inflows**	**Deferred Outflows**	**Deferred Inflows**
Difference between expected and actual experience	$0	$0	$9,682	$0
Difference between expected and actual earnings of pension plan investments	$0	$24,685	$0	$23,731
Changes of Assumptions	$0	$0	$53	$0
Changes in College's proportionate share of pension liabilities	$0	$0	$0	$5,515
Contributions to pension plans after measurement date	$36,822	$0	$26,483	$0
	$36,822	**$24,685**	**$36,218**	**$29,246**

The $1,214,916 reported as deferred outflows of resources represent contributions the College made subsequent to the measurement date and will be recognized as a reduction of the net pension liability for the year ended June 30, 2017.

Other amounts reported as deferred outflows and inflows of resources will be recognized in pension expense as follows:

Year ended June 30	**PERS 1****	**PERS 2/3**	**TRS 1****	**TRS 2/3**
2017	($70,266)	($192,858)	($9,574)	($8,980)
2018	($70,266)	($192,858)	($9,574)	($8,980)
2019	($70,266)	($203,690)	($9,574)	($8,980)
2020	$29,497	$188,625	$4,037	$4,920
2021		$26,368		$1,625
2022				$885
Total	**($181,301)**	**($374,412)**	**($24,685)**	**($19,510)**

State Board Retirement Plan

Plan Description. Faculty and exempt administrative and professional staff are eligible to participate in SBRP. The Teacher's Insurance and Annuity Association (TIAA) and the College Retirement Equities Fund (CREF) are the companion organizations through which individual retirement annuities are purchased. Employees have at all times a 100% vested interest in their accumulations.

TIAA-CREF benefits are payable upon termination at the member's option unless the participant is re-employed in another institution which participates in TIAA-CREF.

The Plan has a supplemental payment component that guarantees a minimum retirement benefit goal based upon a one-time calculation at each employee's retirement date. The SBCTC makes direct payments on behalf of the College to qualifying retirees when the retirement benefit provided by TIAA-CREF does not meet the benefit goal. Employees are eligible for a non-reduced supplemental payment after the age of 65 with ten years of full-time service.

The minimum retirement benefit goal is 2% of the average annual salary for each year of full-time service up to a maximum of 25 years. However, if the participant does not elect to make the 10% TIAA-CREF contribution after age 49, the benefit goal is 1.5% for each year of full-time service for those years the lower contribution rate is selected.

The State Board for Community and Technical Colleges is authorized to amend benefit provisions under RCW 28B.10.400. In 2011, the plan was amended to eliminate the supplemental benefit provisions for all employees hired after June 30, 2011.

Contributions. Contribution rates for the SBRP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and 100% matched by the College. Employee and employer contributions for the year ended June 30, 2016 were each $1,506,952.

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2016, supplemental benefits were paid by the SBCTC on behalf of the College in the amount of $766,692. In 2012, legislation (RCW 28B.10.423) was passed requiring colleges to pay into a Supplemental Benefit Fund managed by the State Investment Board, for the purpose of funding future benefit obligations. During FY 2015, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $123,056. As of June 30, 2016, the Community and Technical College system accounted for $10,439,441 of the fund balance.

Washington State Deferred Compensation Program
The College, through the state of Washington, offers its employees a deferred compensation plan created under Internal Revenue Code Section 457. The plan, available to all State employees, permits individuals to defer a portion of their salary until future years. The state of Washington administers the plan on behalf of the College's employees. The deferred compensation is not available to employees until termination, retirement or unforeseeable financial emergency. The College does not have access to the funds.

Other Post-Employment Benefits
Health care and life insurance programs for employees of the state of Washington are administered by the Washington State Health Care Authority (HCA). The HCA calculates the premium amounts each year that are sufficient to fund the statewide health and life insurance programs on a pay-as-you-go basis. These costs are passed through to individual state agencies based upon active employee headcount; the agencies pay the premiums for active employees to the HCA. The agencies may also charge employees for certain higher cost options elected by the employee.

State of Washington retirees may elect coverage through state health and life insurance plans, for which they pay less than the full cost of the benefits, based on their age and other demographic factors. The health care premiums for active employees, which are paid by the agency during the employees' working careers, subsidize the "underpayments" of retirees. An additional factor in the Other Post-Employment Benefits (OPEB) obligation is a payment that is required by the State Legislature to reduce the premiums for retirees covered by Medicare (an "explicit" subsidy). This explicit subsidy is also passed through to state agencies via active employee rates charged to the agency. There is no formal state or College plan that underlies the subsidy of retiree health and life insurance.

The actuary allocated the statewide disclosure information to the community and technical college system level. The SBCTC further allocated these amounts among the colleges. The College's share of the GASB 45 unfunded actuarially accrued liability (AAL) is $17,788,222 with an annual required contribution (ARC) of $1,770,143. The ARC represents the amortization of the liability for FY 2016 plus the current expense for active employees, which is reduced by the current contributions of approximately $257,435. The College's net OPEB obligation at June 30, 2016 was approximately $4,102,352. This amount is not included in the College's financial statements.

The College paid $4,866,116 for healthcare expenses in 2016, which included its pay-as-you-go portion of the OPEB liability.

17. Operating Expenses by Program

In the Statement of Revenues, Expenses and Changes in Net Assets, operating expenses are displayed by natural classifications, such as salaries, benefits, and supplies. The table below summarizes operating expenses by program or function such as instruction, research, and academic support. The following table lists operating expenses by program for the year ending June 30, 2016.

Table 13: Expenses by Functional Classification		
Instruction	$	20,888,724
Academic Support Services		4,316,483
Student Services		6,052,551
Institutional Support		7,528,226
Operations and Maintenance of Plant		5,399,431
Auxiliary enterprises		6,152,611
Student Financial Aid		15,091,132
Compensated Absences		133,307
Pension		(352,479)
Settlement		1,190,567
Depreciation		3,506,555
Total operating expenses	**$**	**69,907,108**

18. Commitments and Contingencies

There is a class action lawsuit, *Moore v. HCA*, filed against the State of Washington on behalf of former part-time and non-permanent employees alleging improper denial of healthcare benefits.

As of the end of fiscal year 2016, the parties had reached a settlement agreement with the plaintiffs to settle all matters relating to this and related lawsuits.

On March 29th 2016, the legislature passed the supplemental budget which included an appropriation to fund the settlement for the Moore v. HCA lawsuit. SBCTC's portion of this obligation is $32 million of which $19 million is funded by the legislature and the remaining $13 million allocated among 34 colleges in the system. In July 2016, the College was assessed and accrued a total liability in the amount of $1,190,567.

Additionally, the College is engaged in various legal actions in the ordinary course of business. Management does not believe the ultimate outcome of these actions will have a material adverse effect on the financial statement.

The College has commitments of approximately $41,307,000 for various capital projects of which $37,000,000 is for the College Instruction Center (CIC) Building; estimated completion date is August 2017. The remaining commitments are for improvement projects on all three campuses.

19. Subsequent Events

The College does not have any subsequent events as of June 30, 2016, to report.

Required Supplementary Information

REQUIRED SUPPLEMENTARY INFORMATION
Pension Plan Information - Cost Sharing Employer Plans

Proportionate Share of the Net Pension Liability
Measurement Date as of June 30, 2015

	PERS Plan 1	PERS Plans 2/3	TRS Plan 1	TRS Plans 2/3
College's proportion of the net pension liability	0.063350%	0.075225%	0.010527%	0.007249%
College's proportionate share of the net pension liability	$ 3,313,794	$ 2,687,832	$ 333,510	$ 61,167
College covered-employee payroll	$ 265,286	$ 6,907,352	$ 82,178	$ 402,788
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	1249.1391%	38.9126%	405.8378%	15.1860%
Plan's fiduciary net position as a percentage of the total pension liability	59.10%	89.20%	65.70%	92.48%

SCHEDULE OF CONTRIBUTIONS
Measurement Date as of June 30, 2015

	FY 14-15	FY 15-16
Contractually Required Contributions:		
PERS Plan 1	$ 23,982	$ 29,659
PERS Plan 2/3	$ 614,749	$ 772,242
TRS 1 Plan	$ 8,361	$ 10,790
TRS Plans 2/3	$ 35,214	$ 52,887
Contributions in relation to the Contractually Required: Contributions		
PERS Plan 1	$ 23,982	$ 29,659
PERS Plan 2/3	$ 614,749	$ 772,242
TRS 1 Plan	$ 8,361	$ 10,790
TRS Plans 2/3	$ 35,214	$ 52,887

Contribution deficiency or (excess):		
PERS Plan 1	$ -	$ -
PERS Plan 2/3	$ -	$ -
TRS 1 Plan	$ -	$ -
TRS Plans 2/3	$ -	$ -
Covered Employee payroll:		
PERS Plan 1	$ 257,049	$ 267,590
PERS Plan 2/3	$ 6,684,772	$ 7,058,748
TRS 1 Plan	$ 82,915	$ 85,178
TRS Plans 2/3	$ 347,355	$ 413,171
Contributions as a percentage of covered employee payroll:		
PERS Plan 1	9.21%	11.18%
PERS Plan 2/3	9.21%	11.18%
TRS 1 Plan	10.39%	13.13%
TRS Plans 2/3	10.39%	13.13%

We would like to acknowledge the following staff responsible for the content of this report:

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